

CITY OF READING, MICHIGAN
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
YEAR ENDED JUNE 30, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF READING, MICHIGAN	County HILLSDALE
Audit Date 06/30/2004	Opinion Date 09/21/2004	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) OSBOURNE, MARCH, CONDON & CO., P.C.			
Street Address 184 W. CARLETON ROAD	City HILLSDALE	State MI	ZIP 49242
Accountant Signature 			

CITY OF READING, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Reading, Michigan
Reading, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reading, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

The City of Reading, Michigan included in its basic financial statements its investment in Reading Community Fire Department, a joint venture between the City and Reading Township, based on financial statements that have not been audited, and we were not engaged to audit the joint venture financial statements as part of our audit of the City's basic financial statements. The joint venture financial activities, as described in NOTE 2, are included in the City's basic financial statements as governmental activities and represent 3.2%, 3.3%, and less than 1% of the assets, net assets, and expenses respectively, of the City's aggregate governmental activities.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Reading Community Fire Department's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for City of Reading, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2004 on our consideration of City of Reading, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

As described in NOTE 16, the City of Reading, Michigan has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2004.

The Management's Discussion and Analysis on pages iii through ix is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying required supplemental information, identified in the table of contents, is not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board. Our audit was conducted for the purpose of forming opinions on the financial statements. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Osbourn, March, Cordon + Co., P.C.

Certified Public Accountants

Hillsdale, Michigan
September 21, 2004

Management's Discussion and Analysis

The following discussion and analysis of the financial performance for the City of Reading, (the "City") provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2004:

- The financial report for the year ended June 30, 2004 reflects complete implementation of Governmental Accounting Standards Board Statement Number 34, which significantly changed the content and format of municipal financial reporting. Accordingly, these statements present both entity-wide financial reporting for all governmental and business activities in addition to reporting financial information at the fund level. A reconciliation of the net change in fund balance to the change in net assets is provided on page 6.
- Property taxes are the City's single, largest source of revenue. The City's tax base, net of captured taxable value from the TIFA, for fiscal year 2004 was equal to a taxable value of \$10,045,000 which represents an increase of \$312,000 or 3.1 percent.
- State-shared revenue, the second largest revenue source, was reduced by the State of Michigan by approximately \$14,000 this year. This represents a 9.5 percent decrease from the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Reading's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the City's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and state shared revenues and earned but unused sick and vacation leave).

Overview of the Financial Statements (Continued)

Government-wide financial statements (concluded).

The governmental activities of the City include general government, public safety, public works, capital improvement, and parks and recreation. The government-wide financial statements can be found on pages 1-2 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Reading, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the City's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements tell how general government services like public safety were financed in the short term as well as what remains for future spending. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Reading maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street, Local Street, and Capital Projects Fund, all of which are considered to be major funds. The City does not have any governmental funds that are classified as non-major funds.

The City adopts an annual appropriated budget for all its funds. Budgetary comparison schedules have been provided for the General, Major Street, and Local Street Funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

Proprietary funds. The City of Reading maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer disposal systems operations and refuse operations. The *Internal Service fund* is used to report machinery and equipment purchases and maintenance of the equipment provided to other departments of the City on a cost reimbursement basis. This fund's primary charges are to governmental activities and have been included as such in the government-wide financial statements.

Overview of the Financial Statements (Concluded)

Proprietary funds (concluded).

Proprietary funds provide the same type of information as the government-wide financial statements, but provide more detail and information, such as cash flows. The proprietary fund financial statements provide separate information of the Water and Sewer Fund, both of which are considered to be major funds of the City of Reading. The basic proprietary fund financial statements can be found on pages 7-10 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government, such as the Tax Fund where property taxes are collected and disbursed on behalf of other local units of government, or restricted for a particular use, such as the Cemetery Perpetual Care Trust Fund established by individuals in the community for maintenance of the City's cemetery. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support City of Reading's own programs or because of restrictions on the use of the resources that benefit individuals. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 12-13 of this report.

Financial Analysis of the City as a Whole

The City's combined net assets increased by approximately 1.2 percent from a year ago.

The increase in net assets of governmental activities in the amount of \$79,406 is due to the following:

- There was a net increase in capital and infrastructure assets in the amount of \$16,000 resulting from purchases of equipment and the sale of property.
- The City entered into a land-contract agreement for sale of property for approximately \$43,000.
- The City increased its cash on hand by approximately \$24,600.
- The City's investment in the Reading Community Fire Department, a joint venture between the City and Reading Township, decreased by \$4,194 during the year.

The decrease in net assets of business-type activities in the amount of \$30,553 is due to the following:

- There was an increase in capital assets in the amount of \$75,000 resulting from construction in process relating to the planned water project to occur in 2004/2005. The cost is comprised of engineering services provided to the City. Additionally, the City recognized depreciation of \$71,306, debt payments of \$28,000 and related interest expense accrued at year end in the amount of \$8,600. The net effect of these transactions resulted in an increase of \$23,904 in capital assets, net of related debt.
- Restricted cash is up by \$22,105 due to cash collections on bond assessment receivable.
- Unrestricted net assets declined by \$75,752 primarily due to less cash on hand resulting from payment towards construction in process.

Financial Analysis of the City as a Whole (Continued)

The following table shows, in a condensed format, the net assets of the City of Reading as of June 30, 2004 and 2003.

TABLE 1 – City of Reading's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$ 519,604	\$ 471,275	\$ 561,530	\$ 664,121	\$1,081,134	\$1,135,396
Noncurrent assets	1,836,374	1,780,939	2,489,239	2,448,015	4,325,613	4,228,954
Total Assets	\$2,355,978	\$2,252,214	\$3,050,769	\$3,112,136	\$5,406,747	\$5,364,350
Liabilities and Net Assets						
Current liabilities	\$ 41,262	\$ 13,456	\$ 46,000	\$ 50,496	\$ 87,262	\$ 63,952
Long-term liabilities	34,699	38,147	1,262,682	1,289,000	1,297,381	1,327,147
Total Liabilities	\$ 75,961	\$ 51,603	\$1,308,682	\$1,339,496	\$1,384,643	\$1,391,099
Net Assets						
Invested in capital, net of related debt	\$ 387,111	\$ 371,067	\$1,146,109	\$1,123,015	\$1,533,220	\$1,494,082
Restricted			275,976	253,871	275,976	253,871
Unrestricted	1,892,906	1,829,544	320,002	395,754	2,212,908	2,225,298
Total Net Assets	\$2,280,017	\$2,200,611	\$1,742,087	\$1,772,640	\$4,022,104	\$3,973,251
Total Net Assets and Liabilities	\$2,355,978	\$2,252,214	\$3,050,769	\$3,112,136	\$5,406,747	\$5,364,350

Prior year data is not available for the government-wide results of operations. Comparative analysis will be provided in future years when prior year information is available. The following is the government-wide results of operations for the fiscal year ended June 30, 2004:

The City's governmental activity revenues are derived primarily from property taxes, state-shared revenues, interest income and charges for services. Revenues for fiscal year 2004 were actually down compared to last year due to the reduction in City's state-shared revenue allocation and the continuous decline in interest income. In light of these decreases the City was still able to increase its net assets by controlling its spending and reducing expenditures.

The City's business-type activities are comprised of the Water, Sewer and Refuse Funds. Revenues in these funds are primarily derived from charges for services and interest income. The Sewer Fund continued to operate in the black as it has in recent years due to steady increases in sewer rates. Revenues in the Refuse Fund are consistent from prior year as expected; there have been no increases in rates for refuse services. Revenues in the Water Fund have been on a decline for the past five consecutive years. Currently the City has engaged the State of Michigan Department of Environmental Quality to analyze the water system to identify the cause of annual declines in water sales. Operating costs in the Water and Sewer Fund are down from prior year due to less maintenance cost incurred during the year.

Management's Discussion and Analysis

Financial Analysis of the City as a Whole (Concluded)

TABLE 2 – Changes in City of Reading's Net Assets

	Governmental Activities	Business-Type Activities
	2004	2004
General revenue		
Property taxes	\$ 132,800	\$
State-shared revenues	215,204	
Charges for services	47,139	383,101
Interest	15,972	6,963
Donations	23,745	
Other	14,264	1,640
Transfers	27,971	
Total Revenue	\$ 477,095	\$ 391,704
Program Expenses		
General government	\$ 186,594	\$
Public safety	97,164	
Highways and streets	88,583	
Capital outlay	18,824	
Depreciation (unallocated)	6,524	
Water		230,711
Sewer		119,073
Refuse		49,502
Transfer		22,971
Total Program Expenses	\$ 397,689	\$ 422,257
Change in Net Assets	\$ 79,406	\$ (30,553)

Financial Analysis of the City's Funds

The General Fund pays for most of the services the City provides. The most significant are police and fire, which incurred \$94,970 in operating expenditures. The General Fund also appropriates funds to the Local Street Fund for street maintenance costs. Overall City departments operated within their respective budgets resulting in total actual expenditures less than final amended budget by approximately \$152,000.

The Capital Improvement Fund, which is primarily supported by appropriations from the General Fund, continued the sidewalk replacement program incurring cost in the amount of \$12,000. The Fund also completed a storm drain project costing approximately \$50,000 and made improvements to the City buildings.

Major and Local Street Funds which are primarily funded by Act 51 monies received from the State of Michigan account for the maintenance costs of City streets. During the year the two funds completed a number of chip sealing projects within their respective budgets.

See discussion of the Water, Sewer and Refuse Funds in the government-wide analysis.

Management's Discussion and Analysis

General Fund Highlights

The General Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the City government. The budget is essentially a "maintenance" budget, which means it increases modestly from year to year. The budget is monitored closely and amended periodically. The result is that actual revenues and expenses are usually within 5 percent of budgeted amounts. However, due to the reduction in state-shared revenues the City was under budget by an amount greater than 5 percent at June 30, 2004.

Capital Asset and Debt Administration

At the end of fiscal year 2004, the City had approximately \$2,783,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, vehicles, etc. City elected to follow the method of prospective reporting of infrastructure assets provided in the new reporting pronouncement. The only infrastructure asset reported at June 30, 2004 was the capitalization of a new storm drain in the amount of \$48,166.

The City continues to pay down debt obligations related to capital investments. At June 30, 2004 debt related to capital assets totaled \$1,289,000. These debt obligations are scheduled to be paid off by November 2035.

Economic Factors and Next Year's Budgets and Rates

The City's General Fund Budget for the 2004/2005 year was created for a planned reduction in the Police Department's operating costs. The City has downsized the staffing in the department to one full time and two part time officers. These budget cuts were made due to the reduction in the City's state-shared revenue allocations and the continuous rise in health insurance premiums. Additionally, the City has budgeted less projects to be completed in the Capital Improvement Fund. The projects that are planned for the 2004/2005 year include additional work to storm drains and improvements to City owned property.

Major and Local Street Funds budgets for 2004/2005 plan for street maintenance projects such as chip sealing and two inch overlay on the full length of State Street. Both fund's budgets are consistent with prior year.

The Water Fund may have increases to its service rates. Increases will be determined upon completion of the analysis being performed by Michigan Department of Environmental Quality of the water system.

The Sewer Fund will most likely see a significant increase in rates due to a \$2.2 million dollar loan approved by the USDA for improvements to the City's sewer system, which will include but are not limited to , the addition of a third lagoon, upgrades to the lift stations and replacement of sanitary and storm sewer lines.

The City's 2004/2005 budget has been established conservatively while still maintaining the level of services that taxpayers are accustomed to. These include, but are not limited to, police and fire protection, street maintenance, planning and zoning, code enforcement, refuse pickup, and water and sewer services.

Management's Discussion and Analysis

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements, we welcome you to contact the City Clerk's office located at 113 Main Street, Reading, MI 49274.

CITY OF READING, MICHIGAN
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS

JUNE 30, 2004

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL	BUSINESS	TOTAL	TAX INCREMENT
	ACTIVITIES	ACTIVITIES		FINANCE
				AUTHORITY
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 462,901	\$ 204,377	\$ 667,278	\$ 181,699
Cash and cash equivalents, restricted		275,976	275,976	
Accounts receivable		60,778	60,778	
Note receivable, current portion	250		250	
Land contract receivable				184,079
Bond assessment receivable, current portion		7,621	7,621	
Due from other governments	56,401		56,401	
Due from agency fund	52	10,767	10,819	
Internal balances		2,011	2,011	
Total Current Assets	\$ 519,604	\$ 561,530	\$ 1,081,134	\$ 365,778
Noncurrent Assets:				
Note receivable, net of current portion	\$ 43,585	\$	\$ 43,585	\$
Bond assessment receivable, net of current portion		45,530	45,530	
Cemetery grave sites	1,310,800		1,310,800	
Investment in joint venture	94,878		94,878	
Investment in land				322,285
Capital assets	601,079	3,683,911	4,284,990	6,910
Infrastructure assets	48,166		48,166	
Accumulated depreciation	(262,134)	(1,240,202)	(1,502,336)	(3,225)
Total Noncurrent Assets	\$ 1,836,374	\$ 2,489,239	\$ 4,325,613	\$ 325,970
TOTAL ASSETS	\$ 2,355,978	\$ 3,050,769	\$ 5,406,747	\$ 691,748
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	\$ 36,671	\$ 5,110	\$ 41,781	\$ 2,896
Long-term debt, current portion		29,000	29,000	184,079
Compensated absences, current portion	2,580	3,290	5,870	
Accrued interest		8,600	8,600	
Internal balances	2,011		2,011	
Total Current Liabilities	\$ 41,262	\$ 46,000	\$ 87,262	\$ 186,975
Noncurrent Liabilities:				
Compensated absences, net of current portion	\$ 2,100	\$ 2,682	\$ 4,782	\$
Deferred gain on installment sale	15,665		15,665	
Pension benefit obligation	16,934		16,934	
Long-term debt, net of current portion		1,260,000	1,260,000	
Total Noncurrent Liabilities	\$ 34,699	\$ 1,262,682	\$ 1,297,381	\$
TOTAL LIABILITIES	\$ 75,961	\$ 1,308,682	\$ 1,384,643	\$ 186,975
Net Assets:				
Invested in capital assets, net of related debt	\$ 387,111	\$ 1,146,109	\$ 1,533,220	\$ 3,685
Restricted for bond payments		275,976	275,976	
Unrestricted	1,892,906	320,002	2,212,908	501,088
Total Net Assets	\$ 2,280,017	\$ 1,742,087	\$ 4,022,104	\$ 504,773
TOTAL LIABILITIES AND NET ASSETS	\$ 2,355,978	\$ 3,050,769	\$ 5,406,747	\$ 691,748

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

FUNCTIONS / PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities:			
General government	\$ 186,594	\$ 47,139	\$
Public safety	97,164		
Highways and streets	88,583		81,594
Capital outlay	18,824		
Depreciation (unallocated)	6,524		
Total Governmental Activities	<u>\$ 397,689</u>	<u>\$ 47,139</u>	<u>\$ 81,594</u>
Business-type Activities:			
Sewer Fund	\$ 119,073	\$ 142,911	\$
Water Fund	230,711	189,860	
Refuse Fund	49,502	50,330	
Total Business-type Activities	<u>\$ 399,286</u>	<u>\$ 383,101</u>	<u>\$</u>
TOTAL PRIMARY GOVERNMENT	<u><u>\$ 796,975</u></u>	<u><u>\$ 430,240</u></u>	<u><u>\$ 81,594</u></u>
COMPONENT UNITS			
Tax Increment Finance Authority	<u>\$ 52,076</u>	<u>\$</u>	<u>\$</u>

GENERAL REVENUES

Property taxes
State-shared revenues
Interest
Other
Tifa contribution
Rental income
Transfers

TOTAL GENERAL REVENUES

CHANGE IN NET ASSETS

NET ASSETS -
BEGINNING OF YEAR (RESTATED)

NET ASSETS - END OF YEAR

See accompanying notes to the basic financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

<u>PRIMARY GOVERNMENT</u>			<u>COMPONENT UNIT</u>
<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>	<u>TAX INCREMENT FINANCE AUTHORITY</u>
\$ (139,455)	\$	\$ (139,455)	\$
(97,164)		(97,164)	
(6,989)		(6,989)	
(18,824)		(18,824)	
(6,524)		(6,524)	
<u>\$ (268,956)</u>	<u>\$</u>	<u>\$ (268,956)</u>	<u>\$</u>
\$	\$ 23,838	\$ 23,838	\$
	(40,851)	(40,851)	
	828	828	
<u>\$</u>	<u>\$ (16,185)</u>	<u>\$ (16,185)</u>	<u>\$</u>
<u>\$ (268,956)</u>	<u>\$ (16,185)</u>	<u>\$ (285,141)</u>	<u>\$</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (52,076)</u>
\$ 132,800	\$	\$ 132,800	\$ 95,899
133,610		133,610	
15,972	6,963	22,935	2,051
14,264	1,640	15,904	4,052
23,745		23,745	
			1,125
<u>27,971</u>	<u>(22,971)</u>	<u>5,000</u>	
<u>\$ 348,362</u>	<u>\$ (14,368)</u>	<u>\$ 333,994</u>	<u>\$ 103,127</u>
\$ 79,406	\$ (30,553)	\$ 48,853	\$ 51,051
<u>2,200,611</u>	<u>1,772,640</u>	<u>3,973,251</u>	<u>453,722</u>
<u>\$ 2,280,017</u>	<u>\$ 1,742,087</u>	<u>\$ 4,022,104</u>	<u>\$ 504,773</u>

CITY OF READING, MICHIGAN
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2004

	MAJOR FUNDS				TOTAL GOVERNMENTAL FUNDS
	GENERAL	MAJOR STREET	LOCAL STREET	CAPITAL PROJECTS	
ASSETS					
Cash and cash equivalents	\$ 247,069	\$ 37,826	\$ 3,936	\$ 46,511	\$ 335,342
Due from other governmental units	43,029	9,968	3,404		56,401
Due from other funds	<u>1,552</u>				<u>1,552</u>
TOTAL ASSETS	<u>\$ 291,650</u>	<u>\$ 47,794</u>	<u>\$ 7,340</u>	<u>\$ 46,511</u>	<u>\$ 393,295</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ <u>4,409</u>	\$ <u>308</u>	\$ <u>187</u>	\$ <u>30,424</u>	\$ <u>35,328</u>
Fund Balances:					
Board Designated	\$ 19,429	\$	\$	\$	\$ 19,429
Reserved for subsequent year expenditures	45,900	11,331	2,005		59,236
Unreserved, undesignated	<u>221,912</u>	<u>36,155</u>	<u>5,148</u>	<u>16,087</u>	<u>279,302</u>
Total Fund Balances	<u>\$ 287,241</u>	<u>\$ 47,486</u>	<u>\$ 7,153</u>	<u>\$ 16,087</u>	<u>\$ 357,967</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 291,650</u>	<u>\$ 47,794</u>	<u>\$ 7,340</u>	<u>\$ 46,511</u>	<u>\$ 393,295</u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
 WITH THE STATEMENT OF NET ASSETS
 YEAR ENDED JUNE 30, 2004

GOVERNMENTAL FUND BALANCE		\$ 357,967
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and are not reported in the funds.		
The cost of the capital and infrastructure assets is	295,794	
Accumulated depreciation is	<u>(103,175)</u>	
		192,619
Receivables are expected to be collected in future years and are not available to pay for current year expenditures		43,835
Long-term liabilities are not due and payable in the current period and are not reported in the funds		
Pension benefit obligation		(16,934)
Deferred gain on installment sale		(15,665)
Compensated absences		(4,219)
Cemetery grave sites available for sale are not current financial resources		1,310,800
The Internal Service Fund is also included as governmental activities		316,736
Investment in joint venture		94,878
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 2,280,017</u></u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2004

	MAJOR FUNDS				TOTAL GOVERNMENTAL FUNDS
	GENERAL	MAJOR STREET	LOCAL STREET	CAPITAL PROJECTS	
REVENUES					
Taxes	\$ 132,800	\$	\$	\$	\$ 132,800
State revenues	133,610	60,785	20,809		215,204
Charges for services	39,315				39,315
Licenses and permits	7,368				7,368
Fines, fees, and forfeits	456				456
Component unit contributions	23,745				23,745
Interest	15,578	394			15,972
Other	3,667				3,667
TOTAL REVENUES	<u>\$ 356,539</u>	<u>\$ 61,179</u>	<u>\$ 20,809</u>	<u>\$</u>	<u>\$ 438,527</u>
EXPENDITURES					
Current:					
General government	\$ 195,513	\$	\$	\$	\$ 195,513
Public safety	94,970				94,970
Highways and streets		45,622	48,228		93,850
Public works					
Capital outlay	1,965			73,817	75,782
TOTAL EXPENDITURES	<u>\$ 292,448</u>	<u>\$ 45,622</u>	<u>\$ 48,228</u>	<u>\$ 73,817</u>	<u>\$ 460,115</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 64,091</u>	<u>\$ 15,557</u>	<u>\$ (27,419)</u>	<u>\$ (73,817)</u>	<u>\$ (21,588)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	\$ 5,000	\$	\$ 27,000	\$ 87,259	\$ 119,259
Operating transfers (out)	(80,288)	(11,000)			(91,288)
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (75,288)</u>	<u>\$ (11,000)</u>	<u>\$ 27,000</u>	<u>\$ 87,259</u>	<u>\$ 27,971</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	<u>\$ (11,197)</u>	<u>\$ 4,557</u>	<u>\$ (419)</u>	<u>\$ 13,442</u>	<u>\$ 6,383</u>
FUND BALANCES - BEGINNING OF YEAR (RESTATED)	<u>298,438</u>	<u>42,929</u>	<u>7,572</u>	<u>2,645</u>	<u>351,584</u>
FUND BALANCES - END OF YEAR	<u>\$ 287,241</u>	<u>\$ 47,486</u>	<u>\$ 7,153</u>	<u>\$ 16,087</u>	<u>\$ 357,967</u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 6,383

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, and in the statement of activities these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (6,524)	
Capital outlay	<u>56,958</u>	50,434

Actuarial valuation of the pension benefit obligation that results in a reduction in the obligation is not recorded in the governmental funds, but is recorded in the governmental activities as a reduction in current year contributions. 17,020

In the statement of activities, compensated absences (sick leave and vacations) are measured by the amounts earned during the year. Therefore, when leave time is earned it is recognized as expenditures in the statement of activities. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation and sick leave earned exceeded the amounts actually paid. (26)

Internal Service Funds are also included as governmental activities to the extent of activity occurring between governmental funds and the Internal Service Fund. 10,534

Net loss from joint venture is not recorded in the governmental funds, but is recorded in the statement of activities. (4,194)

Cash collections on the land contract installment receivable are included in revenues in the governmental funds, but are not included in revenues in the governmental activities. (745)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 79,406

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2004

	ENTERPRISE FUNDS	
	MAJOR FUNDS	
	SEWER	WATER
ASSETS		
Current Assets:		
Cash	\$ 71,960	\$ 127,698
Cash - restricted		275,976
Accounts receivables	23,152	29,093
Bond assessment receivable, current portion		7,621
Due from other funds		10,767
Total Current Assets	\$ 95,112	\$ 451,155
Noncurrent Assets:		
Bond assessment receivable, net of current portion	\$	\$ 45,530
Capital assets	940,325	2,743,586
Accumulated depreciation	(528,033)	(712,169)
Total Noncurrent Assets	\$ 412,292	\$ 2,076,947
TOTAL ASSETS	\$ 507,404	\$ 2,528,102
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 1,940	\$ 3,149
Long-term debt, current portion		29,000
Compensated absences, current portion	1,650	1,640
Accrued interest		8,600
Due to other funds		
Total Current Liabilities	\$ 3,590	\$ 42,389
Noncurrent Liabilities:		
Compensated absences, net of current portion	\$ 1,345	\$ 1,337
Long-term debt, net of current portion		1,260,000
Total Noncurrent Liabilities	\$ 1,345	\$ 1,261,337
TOTAL LIABILITIES	\$ 4,935	\$ 1,303,726
Net Assets :		
Invested in capital assets, net of related debt	\$ 412,292	\$ 733,817
Restricted for bond repayment		275,976
Unrestricted	90,177	214,583
Total Net Assets	\$ 502,469	\$ 1,224,376
TOTAL LIABILITIES AND NET ASSETS	\$ 507,404	\$ 2,528,102

See accompanying notes to the basic financial statements.

ENTERPRISE FUNDS		INTERNAL SERVICE FUND
NONMAJOR FUND		
REFUSE	TOTAL	EQUIPMENT
\$ 4,719	\$ 204,377	\$ 127,559
8,533	275,976	
	60,778	
	7,621	
	10,767	
<u>\$ 13,252</u>	<u>\$ 559,519</u>	<u>\$ 127,559</u>
\$	\$ 45,530	\$
	3,683,911	353,451
	(1,240,202)	(158,959)
<u>\$</u>	<u>\$ 2,489,239</u>	<u>\$ 194,492</u>
<u>\$ 13,252</u>	<u>\$ 3,048,758</u>	<u>\$ 322,051</u>
\$ 21	\$ 5,110	\$ 1,343
	29,000	
	3,290	261
	8,600	
1,500	1,500	
<u>\$ 1,521</u>	<u>\$ 47,500</u>	<u>\$ 1,604</u>
\$	\$ 2,682	\$ 200
	1,260,000	
<u>\$</u>	<u>\$ 1,262,682</u>	<u>\$ 200</u>
<u>\$ 1,521</u>	<u>\$ 1,310,182</u>	<u>\$ 1,804</u>
\$	\$ 1,146,109	\$ 194,492
	275,976	
11,731	316,491	125,755
<u>\$ 11,731</u>	<u>\$ 1,738,576</u>	<u>\$ 320,247</u>
<u>\$ 13,252</u>	<u>\$ 3,048,758</u>	<u>\$ 322,051</u>

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

RECONCILIATION OF ENTERPRISE FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2004

ENTERPRISE FUNDS NET ASSETS	\$ 1,738,576
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Amounts reported for business activities in the statement of net assets are different because:

Internal Service Funds are also included as business activities to the extent of activity occurring between Enterprise Funds and the Internal Service Fund	3,511
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NET ASSETS OF BUSINESS-TYPE ACTIVITIES	<u>\$ 1,742,087</u>
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See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2004

	ENTERPRISE FUNDS	
	MAJOR FUNDS	
	SEWER	WATER
OPERATING REVENUES		
Charges for services	\$ 144,551	\$ 189,860
Rental income		
TOTAL OPERATING REVENUE	\$ 144,551	\$ 189,860
OPERATING EXPENSES		
General operations and maintenance	\$ 104,392	\$ 118,310
Depreciation	16,436	54,870
TOTAL OPERATING EXPENSES	\$ 120,828	\$ 173,180
OPERATING INCOME	\$ 23,723	\$ 16,680
NON-OPERATING REVENUES (EXPENSES)		
Interest income	\$ 833	\$ 6,130
Interest expense		(59,287)
Gain on sale of equipment		
TOTAL NET NON-OPERATING REVENUES (EXPENSES)	\$ 833	\$ (53,157)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	\$ 24,556	\$ (36,477)
OPERATING TRANSFERS		
Operating transfers (out)	\$ (7,679)	\$ (15,292)
NET INCOME (LOSS)	\$ 16,877	\$ (51,769)
TOTAL NET ASSETS - BEGINNING OF YEAR (RESTATED)	485,592	1,276,145
TOTAL NET ASSETS - END OF YEAR	\$ 502,469	\$ 1,224,376

See accompanying notes to the basic financial statements.

<u>ENTERPRISE FUNDS</u>		<u>INTERNAL SERVICE FUND</u>
<u>NON MAJOR FUND</u>		
<u>REFUSE</u>	<u>TOTAL</u>	<u>EQUIPMENT</u>
\$ 50,330	\$ 384,741	\$
		67,353
<u>\$ 50,330</u>	<u>\$ 384,741</u>	<u>\$ 67,353</u>
 \$ 49,502	 \$ 272,204	 \$ 33,470
	71,306	25,426
<u>\$ 49,502</u>	<u>\$ 343,510</u>	<u>\$ 58,896</u>
<u>\$ 828</u>	<u>\$ 41,231</u>	<u>\$ 8,457</u>
 \$	 \$ 6,963	 \$ 1,088
	(59,287)	4,500
<u>\$</u>	<u>\$ (52,324)</u>	<u>\$ 5,588</u>
<u>\$ 828</u>	<u>\$ (11,093)</u>	<u>\$ 14,045</u>
 \$	 \$ (22,971)	 \$
\$ 828	\$ (34,064)	\$ 14,045
10,903	1,772,640	306,202
<u>\$ 11,731</u>	<u>\$ 1,738,576</u>	<u>\$ 320,247</u>

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

NET CHANGE IN NET ASSETS - TOTAL ENTERPRISE FUNDS \$ (34,064)

Amounts reported for business activities in the statement of activities are different because:

Internal Service Funds are also included as business activities to the extent of activity
occurring between Enterprise Funds and the Internal Service Fund 3,511

CHANGE IN NET ASSETS OF BUSINESS ACTIVITIES \$ (30,553)

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2004

	ENTERPRISE FUNDS	
	MAJOR FUND	
	SEWER	WATER
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 142,115	\$ 186,991
Cash receipts for interfund services provided		
Payments to employees	(37,841)	(43,615)
Payments to suppliers	(59,344)	(65,383)
Payments to interfund services provided	(9,444)	(7,917)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 35,486	\$ 70,076
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to other funds	\$ (7,679)	\$ (15,292)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Collection of customer assessments (principal and interest)	\$	\$ 10,981
Interest paid on capital debt		(59,763)
Principal paid on capital debt		(28,000)
Proceeds from sale of equipment		
Purchase of capital assets	(75,000)	
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (75,000)	\$ (76,782)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	\$ 833	\$ 2,582
NET CHANGE IN CASH	\$ (46,360)	\$ (19,416)
CASH - BEGINNING OF YEAR	118,320	423,090
CASH - END OF YEAR	\$ 71,960	\$ 403,674
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 23,723	\$ 16,680
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	\$ 16,436	\$ 54,870
(Increase) decrease in:		
Accounts receivable	(2,436)	(2,869)
Increase (decrease) in:		
Accounts payable	(5,232)	(1,582)
Other accrued liabilities	2,995	2,977
Total Adjustments	\$ 11,763	\$ 53,396
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 35,486	\$ 70,076

See accompanying notes to the basic financial statements.

ENTERPRISE FUNDS		INTERNAL SERVICE FUND
NONMAJOR FUND		
REFUSE	TOTAL	EQUIPMENT
\$ 49,823	\$ 378,929	\$
(968)	(82,424)	67,353
(48,530)	(173,257)	(6,142)
	(17,361)	(26,083)
\$ 325	\$ 105,887	\$ 35,128
\$	\$ (22,971)	\$
\$	\$ 10,981	\$
	(59,763)	
	(28,000)	
	(75,000)	4,500
\$	\$ (151,782)	(19,951)
\$	\$	\$ (15,451)
\$	\$ 3,415	\$ 1,088
\$ 325	\$ (65,451)	\$ 20,765
4,394	545,804	106,794
\$ 4,719	\$ 480,353	\$ 127,559
\$ 828	\$ 41,231	\$ 8,457
\$	\$ 71,306	\$ 25,426
(507)	(5,812)	
4	(6,810)	784
	5,972	461
\$ (503)	\$ 64,656	\$ 26,671
\$ 325	\$ 105,887	\$ 35,128

CITY OF READING, MICHIGAN

FIDUCIARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2004

	TAX COLLECTION AGENCY FUND	PRIVATE PURPOSE TRUST - CEMETERY PERPETUAL CARE FUND
ASSETS		
Cash	\$ 10,958	\$ 7,202
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to other funds	\$ 10,958	\$
Net Assets:		
Expendable	\$	\$ 7,202
TOTAL LIABILITIES AND NET ASSETS	\$ 10,958	\$ 7,202

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004

	PRIVATE PURPOSE TRUST - CEMETERY PERPETUAL CARE FUND
REVENUE	
Interest revenue	<u>\$ 61</u>
OTHER FINANCING SOURCES (USES)	
Operating transfers (out)	<u>\$ (5,000)</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES (USES)	\$ (4,939)
NET ASSETS - BEGINNING OF THE YEAR	<u>\$ 12,141</u>
NET ASSETS - END OF THE YEAR	<u><u>\$ 7,202</u></u>

See accompanying notes to the basic financial statements.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Reading, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

Established on May 4, 1934, the City of Reading most recently amended its Charter on July 12, 2000. The City operates under a Council-Manager form of government and provides the following services as authorized by its Charter: Public Safety (Police and Fire), Highway and Streets, Sanitation, Recreation, Public Improvements, Planning and Zoning and General Administrative Services.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

In conformity with generally accepted accounting principles, the financial statements of the component unit have been included in the financial reporting entity as a discretely presented component unit.

Discretely Presented Component Unit - The component unit column in the basic financial statements include the financial data of the City's component unit. The unit is reported in a separate column to emphasize that it is legally separate from the City.

Tax Increment Finance Authority (TIFA) - The Authority is governed by a separate board appointed by the City Council to promote economic growth in the TIFA district.

Joint Venture - Discussed at NOTE 2.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the Authority's financial statements include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the City's activities, including fixed assets (building, equipment, vehicles, etc.)
- A change in the fund financial statements to focus on major funds

CITY OF READING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ECONOMIC DEPENDENCY

The City is economically dependent on the State of Michigan for state shared revenues. Absent allocations from the State, the City's operating results would report expenditures exceeding revenues in its General, Major Street, and Local Street Funds. Furthermore, the aforementioned funds would be in a deficit position within a two year period continuing the programs the City currently offers.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the City's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Government-Wide Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The effect of inter-fund activity has been eliminated from the government-wide financial statements.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

Fund Based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and State-shared revenues. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

Major and Local Street Funds are Special Revenue Funds that account for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures in these funds include maintenance of streets and roadway improvements.

The *Capital Projects Fund* accounts for appropriations made to it from other funds. Expenditures include improvements, repairs and maintenance to City facilities.

The City reports the following major proprietary funds:

The *Water and Sewer Funds* are the City's only major proprietary funds. They account for the activities of the water distribution and sewage collection systems.

Additionally, the City reports the following fund types:

Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

CITY OF READING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONCLUDED)

Proprietary Funds

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The *Internal Service Fund* accounts for shared machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis. This fund accounted for 25% and 75% of its activity with business-type and governmental activities, respectively. As a result, the assets and equity were reported in governmental activities and the net profit was allocated on a pro rata basis based on the aforementioned activity percentages. Business-type and governmental activities reported net profit of \$3,511 and \$10,534, respectively, for a total net profit of \$14,045. Therefore, the Internal Service Fund's net assets in the total amount of \$320,247 is reported in the business-type and governmental activities in the amounts of \$3,511 and \$316,736, respectively.

Fiduciary Funds (Not included in government-wide statements)

Fiduciary Funds are used to account for assets held in a trustee or agency capacity for others and therefore are not available to support City operations. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are not included in the government-wide statements. The City presently collects and distributes property taxes on behalf of and to other local units of government through its Agency Fund. The Private Purpose Trust Fund accounts for the activities of the Cemetery Perpetual Care Fund, which provides resources for the maintenance of the City's cemetery.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions. When expenses are incurred for purposes for which both restricted and unrestricted net assets are available, restricted net assets are used prior to unrestricted net assets.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BANK DEPOSITS

Cash includes cash on hand, demand deposits, savings, certificate of deposits and municipal mutual funds that are highly liquid.

RECEIVABLES AND PAYABLES

Outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All receivables are reported at their net realizable values.

CAPITAL ASSETS

Capital assets that include land, buildings, improvements, equipment and vehicles are reported in the government-wide financial statements. The City defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend assets life are not capitalized but rather expensed in the period incurred.

The City has elected under Governmental Accounting Standards Board Statement No. 34 not to report infrastructure retrospectively. Newly acquired or constructed infrastructure will be capitalized and depreciated over their useful lives. There were no additions to infrastructure during the year.

Buildings, improvements, equipment, vehicles and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

	YEARS
Buildings	50
Improvements	25
Equipment	3-15
Vehicles	4-10
Infrastructure	50

COMPENSATED ABSENCES

Eligible employees may earn twelve sick days and can accumulate up to ten sick days annually. Employees are paid 33% of earned sick leave exceeding the limit at the end of the year. Upon death or retirement, accumulated sick days are paid at the employees prevailing rate of pay. Due to the uncertainty of maturity of this liability, the City has accrued the estimated amount of accumulated sick pay in noncurrent liabilities in the statement of net assets.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPENSATED ABSENCES (CONCLUDED)

Furthermore, eligible employees earn vacation leave time upon the completion of one service year. A total of 5 to 20 days of vacation may be earned based on the number of service years employed. Employees cannot accumulate vacation leave and therefore is forfeited if not used by the end of the calendar year.

During the year the net increase in compensated absences was \$6,268 leaving an ending balance of \$10,652.

LONG-TERM OBLIGATIONS

In the government-wide financial statements and the proprietary fund types reported in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PROPERTY TAX

The City of Reading, Michigan bills and collects property taxes and distributes them to other local units of government. Properties are assessed as of December 31, and the related real property taxes are levied and become a lien on July 1 of the following year for summer taxes and December 31 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 28, respectively. Delinquent taxes are turned over to the County and added to the County tax roll. The County remits all uncollected delinquent real property tax to the City by June 30. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

BUDGETS AND BUDGETARY ACCOUNTING

The City's procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by the City Council. Budgets for the General and Special Revenue Funds are adopted on an activity level basis. All annual appropriations lapse at year end.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2004.

NOTE 2: JOINT VENTURE

The City participates with the Reading Township in the Reading Community Fire Department (the "Department"), a joint venture pursuant to an agreement entered into between the two parties. In accordance to the provisions of Governmental Accounting Standards Board No. 14 the joint venture results from the on going financial responsibility of the Department's operations agreed to by the aforementioned municipalities pursuant to the contractual agreement. The Board of Directors is comprised of two members of the City of Reading Council, two members of Reading Township Board, and the Reading Community Fire Department fire chief.

The agreement is silent with respect to termination of the joint venture by either of the municipalities.

The Fire Department reported expenditures in excess of revenues in the amount of \$8,388 in its year ended April 30, 2004 general ledger. The City of Reading, Michigan reported \$4,194 (fifty percent) of the expenditures over revenues in its government-wide financial statements in governmental activities. The City's investment in the joint venture is reported in the Statement of Net Assets under Governmental Activities in the amount of \$94,878. The financial activity of the Fire Department for its year ended April 30, 2004 has not been audited, and we were not engaged to audit the Fire Department's financial statements as part of our audit of the City's basic financial statements.

Copies of the Fire Department's financial statements may be obtained at the Reading Community Fire Department, in Reading, Michigan.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE 3: CASH AND DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States, repurchase agreements, bankers' acceptances of United States banks, commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase and not more than fifty percent of any fund may be invested, obligations of the State of Michigan or its political subdivisions, which are rated as investment grade, and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated fifteen banks for the deposit of City funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 is in accordance with statutory authority.

At year end, the deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 462,901	\$ 204,377	\$ 18,160	\$ 685,438	\$ 181,699
Cash - restricted		275,976		275,976	
	<u>\$ 462,901</u>	<u>\$ 480,353</u>	<u>\$ 18,160</u>	<u>\$ 961,414</u>	<u>\$ 181,699</u>

Cash is restricted for the repayment of bond obligations.

The breakdown of cash between the City and component unit are as follows:

	PRIMARY GOVERNMENT	COMPONENT UNITS
Cash (checking accounts, savings accounts and Certificates of Deposits)	\$ 561,579	\$ 3,697
Municipal mutual funds	<u>399,835</u>	<u>178,002</u>
Total	<u>\$ 961,414</u>	<u>\$ 181,699</u>

The bank balance of the City's deposits is \$1,196,447 of which \$300,612 is covered by federal depository insurance.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 4: LAND CONTRACT RECEIVABLE

During the year the City entered into a land contract agreement for the sale of City property in the amount of \$45,000. The terms of the contract require the buyer to pay the City monthly installments of \$200, which includes interest at 5%, for fifty-nine months with a balloon payment due on January 9, 2009 in the amount of \$42,751.

Future principal and interest maturities to be collected from the buyer are as follows:

<u>JUNE 30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2005	\$ 250	\$ 2,200	\$ 2,450
2006	225	2,175	2,400
2007	240	2,160	2,400
2008	250	2,150	2,400
2009	42,870	1,245	44,115
	<u>\$ 43,835</u>	<u>\$ 9,930</u>	<u>\$ 53,765</u>

The City realized a gain on sale of the above property in the amount of \$16,085. The gain was recorded as a deferred gain (liability) on installment sale. The City will recognize the gain as revenue over the term of the note. Annually, the City will reclassify a portion of the deferred gain to revenue based on the gross profit percentage of 36% realized on the sale of the property.

During the year the City reclassified \$420 from deferred gain to revenue. At June 30, 2004 the City reported \$15,665 remaining as deferred gain in the statement of net assets.

NOTE 5: INVESTMENT IN LAND AND CEMETERY GRAVE SITES

Investment in Land – TIFA

The City's component unit, TIFA, has acquired real property over the past several years with the intent of developing and reselling the land to prospective companies or business owners interested in establishing their businesses in the City of Reading. Investment in these properties are recorded in the statement of net assets at original acquisition cost plus any excavating costs incurred in preparing the land for resale or further development.

Cemetery Grave Sites

The City has available for sale 3,277 cemetery grave sites. These grave sites are available to residents and nonresidents of the City at prices equal to \$400 and \$600 per grave site, respectively. At June 30, 2004 the grave sites are valued at \$1,310,800 based on the resident price of \$400 and reported as non-current assets in the statement of net assets in governmental activities.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE 6: CAPITAL ASSETS

Capital asset activity of the primary government was as follows:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2004</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Capital assets not being depreciated:				
Land	\$ 55,674	\$	\$	\$ 55,674
Capital assets being depreciated:				
Buildings and improvements	\$ 201,962	\$ 8,792	\$ 33,300	\$ 177,454
Drains		48,166		48,166
Equipment	288,500	2,000		290,500
Vehicles	45,000	17,951		62,951
Technology	14,500			14,500
Subtotal	<u>\$ 605,636</u>	<u>\$ 76,909</u>	<u>\$ 33,300</u>	<u>\$ 649,245</u>
Accumulated depreciation:				
Buildings and improvements	\$ 93,211	\$ 3,811	\$ 4,385	\$ 92,637
Drains				121,393
Equipment	101,133	20,260		37,566
Vehicles	32,400	5,166		10,538
Technology	7,825	2,713		
Subtotal	<u>\$ 234,569</u>	<u>\$ 31,950</u>	<u>\$ 4,385</u>	<u>\$ 262,134</u>
Net Capital Assets	<u>\$ 371,067</u>	<u>\$ 44,959</u>	<u>\$ 28,915</u>	<u>\$ 387,111</u>

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE 6: CAPITAL ASSETS (CONCLUDED)

	Balance July 1, 2003	Additions	Disposals	Balance June 30, 2004
<u>BUSINESS-TYPE ACTIVITIES</u>				
Capital assets not being depreciated:				
Land	\$ 20,550	\$	\$	\$ 20,550
Capital assets being depreciated:				
Water and sewer distribution system	\$ 3,512,895	\$	\$	\$ 3,512,895
Equipment	75,466			75,466
Construction in process		75,000		75,000
Subtotal	\$ 3,608,911	\$ 75,000	\$	\$ 3,683,911
Accumulated depreciation:				
Water and sewer distribution system	\$ 1,101,820	\$ 70,257	\$	\$ 1,172,077
Equipment	67,076	1,049		68,125
Construction in process				
Subtotal	\$ 1,168,896	\$ 71,306	\$	\$ 1,240,202
Net Capital Assets	\$ 2,440,015	\$ 3,694	\$	\$ 2,443,709

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	<u>\$ 31,950</u>
Business-type activities	<u>\$ 71,306</u>

	Balance July 1, 2003	Additions	Disposals	Balance June 30, 2004
<u>COMPONENT UNIT - TIFA</u>				
Capital asset being depreciated:				
Equipment	\$ 6,910	\$	\$	\$ 6,910
Accumulated depreciation:				
Equipment	\$ 2,764	\$ 461	\$	\$ 3,225
Net Capital Asset	\$ 4,146	\$ (461)	\$	\$ 3,685

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 7: LONG-TERM DEBT

Long-term debt at June 30, 2004 is comprised of the following:

Component Unit

The Tax Increment Finance Authority obtained a loan described below from a local financial institution to finance the construction of a building and additions in the City of Reading's Industrial Park. Likewise, the Authority entered into a land contract agreement with a local manufacturer, whereby, the agreement allows the manufacturer to occupy the building and make payments toward the loan obligation until paid in full. The land contract agreement has been assigned to the financial institution to secure the note obligation.

\$225,000 construction loan - Century Bank and Trust, secured by assignment land contract, due in monthly installments of \$1,975 including interest at 6.25%, through September 20, 2004. The remaining debt obligation is reported as current portion of long-term debt under current liabilities on the statement of net assets.

\$ 184,079

Enterprise Fund

Water Fund

Water System Revenue Bonds, bearing interest at 5%. Principal payments due annually in January, in amounts from \$1,000 to \$14,000, maturing in 2020.

\$ 184,000

1980 Special Assessment Bonds, bearing interest at 5%. Principal payments due annually in September, in amounts from \$5,000 to \$15,000, maturing in 2009.

35,000

Water Supply System Junior Lien Revenue Bonds, bearing interest at 4.5%. Principal payments due annually in November in amounts from \$10,000 to \$61,000, maturing in 2036.

1,070,000

\$1,289,000

Less: current portion

29,000

NET LONG-TERM DEBT

\$1,260,000

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE 7: LONG-TERM DEBT (CONCLUDED)

The following is a summary of changes in long-term debt:

	BALANCE 6/30/03	ISSUED	RETIRED	BALANCE 6/30/04
<u>Component Unit</u>				
Bank note	\$ 279,460	\$ _____	\$95,381	\$ 184,079
<u>Enterprise Fund</u>				
Water Fund				
Revenue Bonds	\$ 192,000	\$ _____	\$ 8,000	\$ 184,000
Special Assessment Bonds	40,000		5,000	35,000
Junior Lien Revenue Bonds	1,085,000	_____	15,000	1,070,000
	<u>\$1,317,000</u>	<u>\$ _____</u>	<u>\$28,000</u>	<u>\$1,289,000</u>

Cash paid for interest during the year was \$59,763 and \$9,727 out of the Water Fund and TIFA, respectively.

The following is a schedule of principal and interest maturities:

	ENTERPRISE WATER FUND			COMPONENT UNIT		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 29,000	\$ 58,450	\$ 87,450	\$ 184,079	\$ 3,000	\$ 187,079
2006	29,000	57,080	86,080			
2007	30,000	55,710	85,710			
2008	33,000	54,195	87,195			
2009	34,000	52,635	86,635			
2010-2014	175,000	238,400	413,400			
2015-2019	198,000	196,880	394,880			
2020-2024	179,000	153,855	332,855			
2025-2029	206,000	113,220	319,220			
2030-2034	257,000	62,505	319,505			
2035-2036	119,000	8,100	127,100			
	<u>\$1,289,000</u>	<u>\$1,051,030</u>	<u>\$ 2,340,030</u>	<u>\$ 184,079</u>	<u>\$ 3,000</u>	<u>\$ 187,079</u>

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 8: DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the Michigan Municipal Employees' Retirement System (MMERS) which is an agent multiple employer retirement system that covers seven employees of the City. The system provides retirement benefits, as well as death and disability benefits.

Service retirement benefits vest after 10 years of service or after age 60 is attained; payment is based on various factors depending on the type of benefit to be paid. Deferred retirement benefits vest after 10 years of service, but are not paid until the date retirement would have occurred had the member remained an employee. The obligation to contribute to and maintain the system for these employees was established by negotiation with the competitive bargaining units and does not require a contribution from the employees.

Funding Status and Progress

The amounts shown below as "pension benefit obligation" are standardized disclosure measures of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measures are the actuarial present value of credited projected benefits and are intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among systems. The measures are independent of the actuarial funding method used to determine contributions to the system discussed below.

The pension benefit obligation was determined as part of the most recent actuarial valuation dated December 31, 2002. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) total active member payroll is assumed to increase 4.5% per year, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement.

Information related to funding of the pension benefit obligation as of December 31, 2003 actuarial valuation is as follows:

Pension Benefit Obligation

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$ 20,226
Terminated employees not yet receiving benefits	49,628
Employer financed	<u>103,293</u>

Total Actuarial Accrued Liability 173,147

Net assets available for benefits at actuarial value (market value is \$142,639) 156,213

Unfunded actuarial accrued liability \$ 16,934

Contributions Required

The annual required contribution (ARC) for the fiscal year beginning July 1, 2005 and 2004 is \$8,532 and \$11,952, respectively.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE 8: DEFINED BENEFIT PENSION PLAN (CONCLUDED)

Trend Information

	VALUATION YEAR ENDED DECEMBER 31	
	2003	2002
Net assets available for benefits, as a percentage of pension benefit obligation	90%	80%
Unfunded pension benefit obligation, as a percentage of covered payroll	10%	16%
	FISCAL YEAR ENDED JUNE 30	
	2003	2002
Employer Contributions, as a percentage of covered payroll	5.23%	5.50%

Employer contributions were made in accordance with actuarially determined requirements. The required supplementary information (see table of contents) contained in the additional information is designed to provide information about the plan's progress in accumulating sufficient assets to pay benefits when due.

A copy of the report may be obtained from Gabriel, Roeder, Smith & Co., One Towne Square, Suite 800, Southfield, Michigan 48076

NOTE 9: FUND EQUITIES

Reserved and designated fund balances and restricted net assets at June 30, 2004 are as follows:

The City plans to incur expenditures in excess of revenues in its 2004-2005 budgets. Fund reserves have been established in those funds, expecting to incur decreased fund balance during the fiscal year ending June 30, 2005 as follows:

General Fund	\$45,900
Major Street Fund	11,331
Local Street Fund	<u>2,005</u>
	<u>\$59,236</u>

General Fund – Board designated \$19,429 in fund balance for the replacement of a fire truck at the Reading Community Fire Department.

Water Fund – Net assets in the amount of \$275,976 are restricted for the repayment of bond debt.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

NOTE 10: OPERATING TRANSFERS

Interfund transfers for the current year are as follows:

Governmental Funds

Transfers (out) from:	Transfers in to:	
General Fund	Local Street Fund	\$ (16,000)
General Fund	Capital Improvement Fund	(64,288)
Major Street Fund	Local Street Fund	<u>(11,000)</u>
	Total	\$ <u>(91,288)</u>

Enterprise Funds	Capital Improvement Fund	\$ 22,971
Trust Fund	General Fund	5,000
General Fund	Capital Improvement Fund	64,288
General Fund	Local Fund	16,000
Major Street Fund	Local Street Fund	<u>11,000</u>
	Total	\$ <u>119,259</u>

Enterprise Funds

Transfers (out) from:	Transfers in to:	
Water Fund	Capital Improvement Fund	\$ (15,292)
Sewer Fund	Capital Improvement Fund	<u>(7,679)</u>
		\$ <u>(22,971)</u>

Fiduciary Funds

Transfers (out) from:	Transfers in to:	
Cemetery Trust Fund	General Fund	\$ <u>(5,000)</u>

Transfers from the General Fund to other funds are to support the operations of those funds. Transfers from the Cemetery Fund to the General Fund are to support the cost of maintaining the cemeteries.

Transfers from the Major Street Fund to the Local Street Fund are to support local street maintenance.

Transfers from the Enterprise Funds to the Capital Improvement Fund were made to assist in the financing of the drain project.

NOTE 11: COMMITMENTS

During the year the City and the Reading Township entered into a purchase agreement with a fire apparatus company to purchase a new fire rescue vehicle for the Reading Community Fire Department, a joint venture between the City and Township. The purchase will be jointly financed by both parties through a local financial institution. The rescue vehicle was purchased subsequent to the City's June 30, 2004 year end in the amount of \$218,956 of which \$109,478 is the City's portion of the cost.

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 12: RISK MANAGEMENT

The City of Reading, Michigan is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, unemployment benefits, as well as medical and workmen's compensation benefits provided to employees. The City of Reading, Michigan has purchased commercial insurance for general liability on buildings and property, equipment damage and theft, employee theft, and limited tort claims for specific City of Reading, Michigan facilities or events. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 13: CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, City management does not believe such disallowances, if any, will be material to the financial position of the City.

As is the case with other entities, the City faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2004.

NOTE 14: SUBSEQUENT EVENT

Subsequent to the Tax Increment Finance Authorities (TIFA) fiscal year ended June 30, 2004, the TIFA Board approved to obtain a construction loan in the amount of \$600,000 with a local financial institution to expand an existing building in the industrial park to house a new company moving into the City. When the construction is completed the construction note will be converted to a mortgage note.

Additionally, TIFA has entered into a buy-sell agreement with the company that requires the company to sign a land contract agreement with TIFA upon completion of the construction for repayment of the mortgage note. The land contract will secure the mortgage note; however, TIFA will remain obligated for the repayment of the note until it is paid in full.

NOTE 15: SANITARY SEWER IMPROVEMENTS

In November 2003 the City Council passed a resolution of intent to issue and sell revenue bonds in an amount not to exceed \$2,200,000 for the purpose of paying for the cost of acquiring and constructing sewer system improvements. City management anticipates the project will begin during the 2004/2005 fiscal year.

CITY OF READING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 16: IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

For the year ended June 30, 2004 the Authority implemented the following Governmental Accounting Standards Board pronouncements:

Statements

No. 33 – Accounting and Financial Reporting for Nonexchange Transactions

No. 34 – *Basic Financial Statements – and Management's discussion and analysis – for State and Local Governments*

No. 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues – An Amendment to GASB No. 33*

No. 37 – *Basic Financial Statements – and Management's discussion and analysis – for State and Local Governments: Omnibus*

No. 38 – *Certain Financial Statement Note Disclosures*

Interpretations

No. 6 – *Recognition and Measurement of certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending prior to June 15, 2005. The City is required to implement the new requirements no later than the fiscal year ending June 30, 2004.

As a result of implementing these pronouncements for the year ended June 30, 2004, the following restatements were made to beginning fund balance and net asset accounts:

Governmental Activities

Fund Balance – June 30, 2003	\$ 457,819
Additions:	
Governmental capital assets, including land, buildings and equipment as of July 1, 2003	272,136
Cemetery grave sites available for sale in the future	1,310,800
Recording capital assets in the Revolving Equipment Fund	199,967
Investment in joint venture	99,072
Subtractions:	
Accumulated depreciation as of July 1, 2003 on the above capital assets	101,036
Long-term liabilities to be paid in future years	38,147
Governmental net assets, restated at July 1, 2003	<u>\$2,200,611</u>

CITY OF READING, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2004

NOTE 16: IMPLEMENTATION OF NEW ACCOUNTING STANDARDS (CONCLUDED)

Governmental Funds

General Fund:

Fund Balance – June 30, 2003	\$ 457,819
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Subtractions:

Converted Capital Project Revolving Equipment Fund to an Internal Service Fund	<u>106,235</u>
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Fund Balance – restated at July 1, 2003	<u>\$ 351,584</u>
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REQUIRED SUPPLEMENTAL INFORMATION

CITY OF READING, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND

YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUE				
Taxes	\$ 131,229	\$ 131,229	\$ 132,800	\$ 1,571
State revenues	142,850	142,850	133,610	(9,240)
Charges for services	19,100	19,100	39,315	20,215
Licenses and permits	5,700	5,700	7,368	1,668
Fines, fees, and forfeits	1,880	1,880	456	(1,424)
Component unit contributions	37,296	37,296	23,745	(13,551)
Interest	8,650	8,650	15,578	6,928
Other	3,600	3,600	3,667	67
TOTAL REVENUES	\$ 350,305	\$ 350,305	\$ 356,539	\$ 6,234
EXPENDITURES				
General government	\$ 14,930	\$ 21,130	\$ 19,190	\$ 1,940
City manager	34,456	28,305	26,324	1,981
Elections	1,700	1,700	1,083	617
Professional fees	14,800	18,000	15,547	2,453
Clerk/treasurer office	15,171	15,171	12,399	2,772
Assessor	10,631	10,631	10,022	609
Building and grounds	38,278	36,897	29,462	7,435
Cemeteries	26,320	50,599	46,238	4,361
Public safety	108,240	102,952	94,970	7,982
Plan and zoning	4,521	4,521	3,616	905
Utility - city wide	16,000	16,000	15,853	147
Basswood centre	6,240	775	88	687
Insurance	16,000	17,657	17,656	1
Capital outlay		48,100		48,100
TOTAL EXPENDITURES	\$ 307,287	\$ 372,438	\$ 292,448	\$ 79,990
REVENUES OVER (UNDER) EXPENDITURES	\$ 43,018	\$ (22,133)	\$ 64,091	\$ 86,224
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 1,500	\$ 1,500	\$ 5,000	\$ 3,500
Operating transfers (out)	(78,624)	(99,062)	(80,288)	18,774
TOTAL OTHER FINANCING SOURCES (USES)	\$ (77,124)	\$ (97,562)	\$ (75,288)	\$ 22,274
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	\$ (34,106)	\$ (119,695)	\$ (11,197)	\$ 108,498
FUND BALANCE - BEGINNING OF YEAR	298,438	298,438	298,438	
FUND BALANCE - END OF YEAR	\$ 264,332	\$ 178,743	\$ 287,241	\$ 108,498

CITY OF READING, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE -
MAJOR SPECIAL REVENUE FUND - MAJOR STREET

YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUES				
State revenues	\$ 58,800	\$ 58,800	\$ 60,785	\$ 1,985
Interest income	300	300	394	94
TOTAL REVENUES	<u>\$ 59,100</u>	<u>\$ 59,100</u>	<u>\$ 61,179</u>	<u>\$ 2,079</u>
EXPENDITURES				
Wages and benefits	\$ 19,155	\$ 19,155	\$ 19,035	\$ 120
Operating supplies	6,620	6,620	5,669	951
Contractual services	23,300	23,300	7,430	15,870
Tree trimming	3,000	3,000	1,869	1,131
Equipment rental	12,000	12,000	11,619	381
TOTAL EXPENDITURES	<u>\$ 64,075</u>	<u>\$ 64,075</u>	<u>\$ 45,622</u>	<u>\$ 18,453</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (5,275)</u>	<u>\$ (5,275)</u>	<u>\$ 15,557</u>	<u>\$ 20,438</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	<u>\$ (11,000)</u>	<u>\$ (11,000)</u>	<u>\$ (11,000)</u>	<u>\$</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	<u>\$ (16,275)</u>	<u>\$ (16,275)</u>	<u>\$ 4,557</u>	<u>\$ 20,438</u>
FUND BALANCE - BEGINNING OF YEAR	<u>42,929</u>	<u>42,929</u>	<u>42,929</u>	
FUND BALANCE - END OF YEAR	<u><u>\$ 26,654</u></u>	<u><u>\$ 26,654</u></u>	<u><u>\$ 47,486</u></u>	<u><u>\$ 20,438</u></u>

CITY OF READING, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE -
MAJOR SPECIAL REVENUE FUND - LOCAL STREET
YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUES				
State revenues	\$ 18,955	\$ 18,955	\$ 20,809	\$ 1,854
EXPENDITURES				
Wages and benefits	\$ 21,099	\$ 21,099	\$ 19,730	\$ 1,369
Operating supplies	6,120	6,120	4,675	1,445
Contractual services	4,500	11,500	8,368	3,132
Tree trimming	3,000	3,000	1,742	1,258
Equipment rental	10,000	10,000	13,713	(3,713)
TOTAL EXPENDITURES	\$ 44,719	\$ 51,719	\$ 48,228	\$ 3,491
REVENUES OVER (UNDER) EXPENDITURES	\$ (25,764)	\$ (32,764)	\$ (27,419)	\$ 5,345
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 30,500	\$ 30,500	\$ 27,000	\$ (3,500)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	\$ 4,736	\$ (2,264)	\$ (419)	\$ 1,845
FUND BALANCE - BEGINNING OF YEAR	7,572	7,572	7,572	
FUND BALANCE - END OF YEAR	\$ 12,308	\$ 5,308	\$ 7,153	\$ 1,845

CITY OF READING, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION

RETIREMENT SYSTEM REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS

MICHIGAN MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

JUNE 30, 2004

AS OF DEC. 31	(1) NET ASSETS AVAILABLE FOR BENEFITS	(2) PENSION BENEFIT OBLIGATION	(3) PERCENT FUNDED (1)/(2)	(4) UNFUNDED (OVER- FUNDED) PBO (2)-(1)	(5) ANNUAL COVERED PAYROLL	(6) UNFUNDED (OVER- FUNDED) PBO AS A PERCENT OF COVERED PAYROLL (4)/(5)
1989		24,996	%	24,966	59,525	42%
1990	12,374	31,632	39%	19,258	53,631	36%
1991	18,031	35,436	51%	17,405	53,489	33%
1992	17,130	38,152	45%	21,022	77,184	27%
1993	19,238	56,804	34%	37,566	69,947	54%
1994	24,898	69,154	36%	44,256	84,192	53%
1995	33,511	69,772	48%	36,261	79,990	45%
1996	42,985	82,936	52%	39,951	109,831	36%
1997	55,055	93,334	59%	38,279	120,575	32%
1998	67,608	124,465	54%	56,857	103,460	55%
1999	84,239	118,571	71%	34,332	140,079	25%
2000	100,971	147,394	69%	46,423	185,746	25%
2001	119,129	158,685	75%	39,556	185,568	21%
2002	135,413	169,367	80%	33,954	217,422	16%
2003	156,213	173,147	90%	16,934	163,171	10%

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the retirement system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the retirement system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

OTHER SUPPLEMENTAL INFORMATION

CITY OF READING, MICHIGAN
OTHER SUPPLEMENTAL INFORMATION
TAX INCREMENT FINANCE AUTHORITY

BALANCE SHEET

JUNE 30, 2004

ASSETS
Cash

\$ 181,699

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable

\$ 2,896

Fund Balance

Unreserved, undesignated

\$ 178,803

TOTAL LIABILITIES AND FUND BALANCE

\$ 181,699

CITY OF READING, MICHIGAN
OTHER SUPPLEMENTAL INFORMATION
TAX INCREMENT FINANCE AUTHORITY

RECONCILIATION OF THE TAX INCREMENT FINANCE AUTHORITY'S
BALANCE SHEET WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2004

TIFA FUND BALANCE		\$ 178,803
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and are not reported in the funds.		
The cost of the capital assets is	6,910	
Accumulated depreciation is	<u>(3,225)</u>	3,685
Receivables are expected to be collected in future years and are not available to pay for current year expenditures		184,079
Long-term liabilities are not due and payable in the current period and are not reported in the funds		
Bank notes		(184,079)
Investments in land held for sale are not current resources and therefore are not available to pay for current year expenditures		<u>322,285</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 504,773</u></u>

CITY OF READING, MICHIGAN

OTHER SUPPLEMENTAL INFORMATION

TAX INCREMENT FINANCE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2004

REVENUE	
Taxes	\$ 95,899
Interest	2,051
Rent	1,125
Other	<u>4,052</u>
TOTAL REVENUES	<u>\$ 103,127</u>
EXPENDITURES	
Wages	\$ 22,795
Contracted services	12,061
Office supplies	42
Legal and professional	3,998
Memberships and dues	782
Utilities	1,052
Community promotion	605
Land purchases	30,995
Engineering	3,534
Debt service:	2,274
Principal	27,931
Interest	<u>9,727</u>
TOTAL EXPENDITURES	<u>\$ 115,796</u>
REVENUES (UNDER) EXPENDITURES	<u>\$ (12,669)</u>
OTHER FINANCING SOURCES (USES)	
Collections on land contract receivables	<u>\$ 27,931</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	\$ 15,262
FUND BALANCE - BEGINNING OF YEAR	<u>163,541</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 178,803</u></u>

CITY OF READING, MICHIGAN

OTHER SUPPLEMENTAL INFORMATION

TAX INCREMENT FINANCE AUTHORITY

RECONCILIATION OF THE TAX INCREMENT FINANCE AUTHORITY'S STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

NET CHANGE IN FUND BALANCE - TOTAL TIFA FUNDS \$ 15,262

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, and in the statement of activities these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (461)	
Capital outlay	<u>36,250</u>	35,789

Cash collection on land contract receivables are revenues in the fund financial statements, but not in the statement of activities (where it reduces long-term receivables) (27,931)

Repayment of bank notes is an expenditure in the fund financial statements, but not in the statement of activities (where it reduces long-term debt). 27,931

Included in governmental activities is an expenditure for the forgiveness of the current amount due from a local industrial corporation on a long-term note receivable. Whereas, governmental funds recognize revenue and expenditures when cash is either collected or disbursed.

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 51,051

OTHER REPORTS



Osbourne, March, Condon & Co., P.C.

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CITY OF READING, MICHIGAN

GAO GOVERNMENT AUDITING STANDARDS REPORT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of Reading, Michigan
Reading, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Reading, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City of Reading, Michigan's basic financial statements and have issued our report thereon dated September 21, 2004. The report on the basic financial statements was qualified because the City included in its basic financial statements its investment in Reading Community Fire Department, a joint venture between the City of Reading, Michigan and Reading Township, based on financial statements that have not been audited, and we were not engaged to audit the joint venture financial statements as part of our audit of the City's basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Reading, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Reading, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that we have reported to management of City of Reading, Michigan, in a separate letter dated September 21, 2004.

This report is intended for the information of the City Council, management and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

Casbourne, March, Condon + Co., P.C.

Certified Public Accountants

Hillsdale, Michigan
September 21, 2004



Osbourne, March, Condon & Co., P.C.

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**CITY OF READING, MICHIGAN
COMMUNICATION TO CITY COUNCIL**

September 21, 2004

To City Council
CITY OF READING, MICHIGAN
Reading, Michigan

We have audited the financial statements of City of Reading, Michigan for the year ended June 30, 2004, and have issued our report thereon dated September 21, 2004. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 26, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Reading, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application as necessary. The significant accounting policies used by City of Reading, Michigan are described in NOTE 1 to the financial statements.

City management implemented the following Governmental Accounting Standards Board pronouncements as required in the industry of local units of government:

Statements

- No. 33 – Accounting and Financial Reporting for Nonexchange Transactions
- No. 34 – *Basic Financial Statements – and Management's discussion and analysis – for State and Local Governments*
- No. 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues – An Amendment to GASB No. 33*
- No. 37 – *Basic Financial Statements – and Management's discussion and analysis – for State and Local Governments: Omnibus*
- No. 38 – Certain Financial Statement Note Disclosures

Interpretations

- No. 6 – *Recognition and Measurement of certain Liabilities and Expenditures in Governmental Fund Financial Statements*

We noted no transactions entered into by City of Reading, Michigan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the liability of the payout for employee compensated absences upon their death or retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Reading, Michigan's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Reading, Michigan, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Reading, Michigan's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Reading, Michigan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the City Council and management. It is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

astbourne, March, Condon + Co., P.C.

Certified Public Accountants



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CITY OF READING, MICHIGAN
AUDITOR'S COMMENTS AND RECOMMENDATIONS

September 21, 2004

City Council
City of Reading, Michigan
Reading, MI 49274

In planning and performing our audit of the financial statements of City of Reading, Michigan for the year ended June 30, 2004, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 21, 2004, on the financial statements of City of Reading, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the City's management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

INVENTORY

At year ended June 30, 2004 the City's Water Fund had on hand a variety of unused supplies and parts used in repairs. These supplies were expensed in previous years but were not used. In Enterprise Funds, Water and Sewer Funds, unused repair supplies and parts are required to be carried on the books as inventory. When the parts are used, inventory is reduced and expense is increased for the repairs made.

Recommendation

We recommend the City establish an inventory system that maintains detailed records of the quantity of supplies purchased, the purchase price paid for the supplies, and the total value of the supplies by supply type. Upon completion of this exercise, the City should record the amount of inventory on hand in its financial books. Furthermore, the City should take a physical count of inventory on hand at or near June 30th of each fiscal year to obtain an accurate valuation to be reported in the City's financial books and year end financial statements.

CASH RECEIPTS

During our audit we discovered that cash and checks collected at the counter in the City office are not input into the computerized cash receipt system upon receipt from customers but rather the remittance advice and money received are attached together and accumulated to be input into the computerized cash receipts system at the end of the day.

Recommendation

We recommend that cash received from customers immediately be input into the computerized cash receipt system to avoid the loss of money and/or remittance advices and to accurately record daily cash collected in the general ledger.

FIRE EQUIPMENT PURCHASES

We noted that the City and Reading Township entered into a purchase agreement to acquire a fire rescue vehicle. Additionally, the two parties agreed to jointly finance the purchase. In the ordinary course of operations, the Fire Department purchases supplies and other small equipment through its own financial books.

Recommendation

We recommend that in the future the City not enter into financing arrangements for fire rescue vehicle purchases on behalf of the Fire Department. The Fire Department should enter into its own purchase agreements and financing arrangements. Vehicle costs (purchase price, insurance, etc.), bank obligations, and vehicle title should be in the name of the Fire Department and correctly reported in its financial records. Increases in the Fire Department's operating costs are supported by the City and Township's annual financial contributions.

FIVE YEAR WATER ANALYSIS

At the conclusion of our audit we identified that water sales have declined by \$49,000 over the past five years as demonstrated in the table below. This contradicts sewer sales which have doubled during the same time period increasing from \$70,000 to \$140,000 annually.

	WATER FUND				
	YEAR ENDED JUNE 30,				
	2004	2003	2002	2001	2000
CHARGES FOR SERVICES	\$ 189,860	\$ 198,785	\$ 204,043	\$ 217,638	\$ 238,972
OPERATING EXPENSES	<u>173,180</u>	<u>201,418</u>	<u>135,857</u>	<u>143,708</u>	<u>153,062</u>
OPERATING INCOME	\$ 16,680	\$ (2,633)	\$ 68,186	\$ 73,930	\$ 85,910
NON-OPERATING REVENUES AND (EXPENSES)	<u>\$ (53,157)</u>	<u>\$ (52,362)</u>	<u>\$ (51,115)</u>	<u>\$ (45,455)</u>	<u>\$ (36,847)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	\$ (36,477)	\$ (54,995)	\$ 17,071	\$ 28,475	\$ 49,063
OPERATING TRANSFERS	<u>(15,292)</u>	<u>(8,848)</u>	<u>(17,492)</u>	<u>(4,889)</u>	<u>(5,964)</u>
NET INCOME (LOSS)	<u><u>\$ (51,769)</u></u>	<u><u>\$ (63,843)</u></u>	<u><u>\$ (421)</u></u>	<u><u>\$ 23,586</u></u>	<u><u>\$ 43,099</u></u>

This decline could be the result of less water consumption, businesses and/or households not being charged, or water leaks. Our analysis of water consumption resulted in identifying that a difference between what was pumped and what was billed was approximately 4,634,000 gallons of water. The result of this difference was explained to us by Tom Stephenson and appeared reasonable. There are no clearly identifiable reasons to us why there is a steady decline in sales.

In light of the continuous decline in sales, we recommend the City investigate the related causes surrounding this trend.

ANTIFRAUD PROGRAMS AND CONTROLS

City management, not the auditor, is responsible for designing and implementing effective systems and procedures for preventing, deterring, and detecting fraud. Currently the City has a variety of controls in place that mitigate such activity. However, we recommend, the City establish a process for assessing its risk for fraudulent activity and reevaluating those risks on a continuous basis. Furthermore, the City should establish antifraud policies required to be adhered to by all employees. Internal controls and employee programs should be implemented in response to identified risks to mitigate fraudulent activities from occurring.